




City of San Diego

CARL DEMAIO
CITY COUNCILMEMBER –DISTRICT 5

MEMORANDUM

DATE: January 7, 2009

TO: Budget and Finance Committee

FROM: Councilmember Carl DeMaio 

RE: City Employee Compensation Analysis, Part 1 of 4

One of the core responsibilities of local governments is to skillfully manage the public workforce. Municipalities must take on the difficult but necessary task of developing an employee compensation system that attracts and retains highly-qualified workers, while protecting the interests of taxpayers. Whether lawmakers can achieve this delicate balance despite arm-twisting from labor unions and political interests is a basic test in budget stewardship. Unfortunately, San Diego has failed to make the grade, suggesting elected officials must do more to reduce labor costs and strengthen reform efforts at City Hall.

At issue is the “average fringe rate,” which measures the percentage of total fringe benefits of workers (retirement pension payments, healthcare, worker’s compensation and other key perks) against their total budgeted salaries. Average fringe rates only measure the permanent salaries of the labor force, and exclude the costs for temporary workers, overtime pay, bonuses, and the like. The rate gives the most accurate look at how the day-to-day workforce is being compensated, which can be measured and compared across city and state boundaries.

More than half of the city’s fringe benefit costs are retirement-related, such as payments to the employee’s retirement system, and special retirement contribution pick-ups for select city workers. This figure also includes the notorious billion-dollar pension liability taxpayers are on the hook for and required to pay down over future decades. *These costs are significantly out of scale for a city workforce our size, and must be reduced immediately.*

Fixing San Diego's wage-benefits balance demands the attention of the City Council and the Mayor's Office. Every tax dollar spent on pension debt and retirement costs is one less spent on repairing roads, parks, and neighborhood libraries. To protect the interests of taxpayers and bring structural changes to labor compensation policies, the incoming City Council should weigh the merits of reducing our average fringe rate by 6% over the next few years. To achieve this ambitious goal, three key policy reforms must be reviewed by lawmakers:

Reform 1: Advancing Changes to the Pension System.

Under the leadership of Mayor Jerry Sanders and members of the City Council, a compromise pension agreement was struck with three city labor unions this summer that will reduce taxpayer liabilities for the retirement benefits of future public employees. Though the agreement is expected to cut costs by more than \$22 million annually, it will take an estimated twenty years before the full savings materialize. New rounds of labor negotiations must be on the table if we are to bring sustainability to our wage-benefits balance and reduce additional costs.

Reform 2: Implementing Managed Competition.

Labor tactics and legal challenges have successfully stalled the voter-approved roll out of managed competition, which allows for governments to bid out the right to deliver public services. This disenfranchises taxpayers. A policy study released in September 2007 found that the City of San Diego can potentially save more than \$200 million by bidding out 11 key public services to the private sector. A leaner city workforce will reduce pension obligations and bring greater efficiencies to local government. With the two-year anniversary of Proposition C approaching, local leaders should redouble their efforts to get this critical reform tool off the ground and underway.

Reform 3: Rewarding Workers Efficiently.

As higher worker salaries increase our pension obligations, City Hall must find new ways to compensate government workers without adding excessive new retirement costs to our budget books. The San Diego City Council, with assistance from the Independent Budget Analyst, should examine best practices and hear testimony from lawmakers in other municipalities on how to best approach this issue.

Fixing the size of worker benefits is only one of the many monumental tasks confronting City Hall and the incoming legislators in December. By working together and holding fast to the principles of fiscal discipline and public accountability, the San Diego City Council can renew the public confidence that they will do what's right and make greater progress in the cause for reform.